MONTANA Economy at a Glance

FEBRUARY 2009

EMPLOYMENT BY INDUSTRY

(Does not include self-employed or agricultural employment)

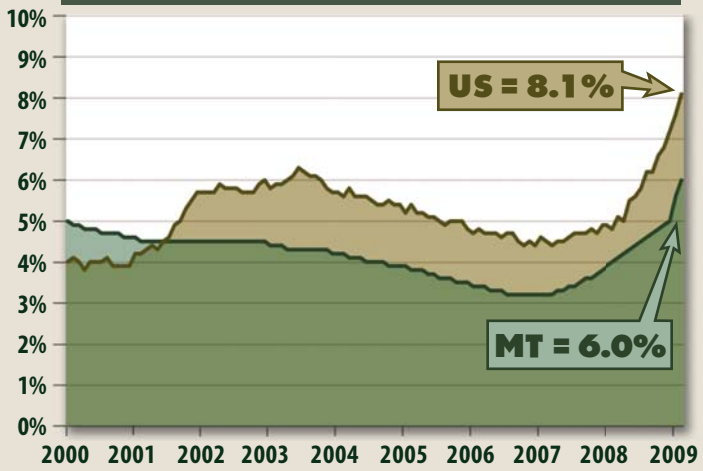
Industry Employment (in thousands)	Feb.(P) 2009	Jan. 2009	Net Change	Percent Change
Total Non-Agricultural	441.9	444.6	-2.7	-0.6%
Natural Resources & Mining	8.1	8.4	-0.3	-3.6%
Construction	26.7	27.2	-0.5	-1.8%
Manufacturing	19.3	19.3	0.0	0.0%
Trade, Transportation, & Utilities	90.1	90.2	-0.1	-0.1%
Information	7.2	7.2	0.0	0.0%
Financial Activities	22.2	21.9	0.3	1.4%
Professional & Business Services	38.9	39.7	-0.8	-2.0%
Education & Health Services	62.9	62.9	0.0	0.0%
Leisure & Hospitality	59.5	60.4	-0.9	-1.5%
Other Services	16.3	16.9	-0.6	-3.6%
Total Government	90.7	90.5	0.2	0.2%

(P) denotes preliminary figures

Montana's seasonally-adjusted non-agricultural payroll employment decreased by 2,700 jobs (-0.6%) from January to February 2009. The largest losses occurred in the Leisure and Hospitality sector with a decrease of 900 jobs (-1.5%) and the Professional and Business Services sector with 800 jobs lost (-2.0%). Financial Activities saw the largest gain, adding 300 jobs (+1.4%) over the month.

UNEMPLOYMENT RATE

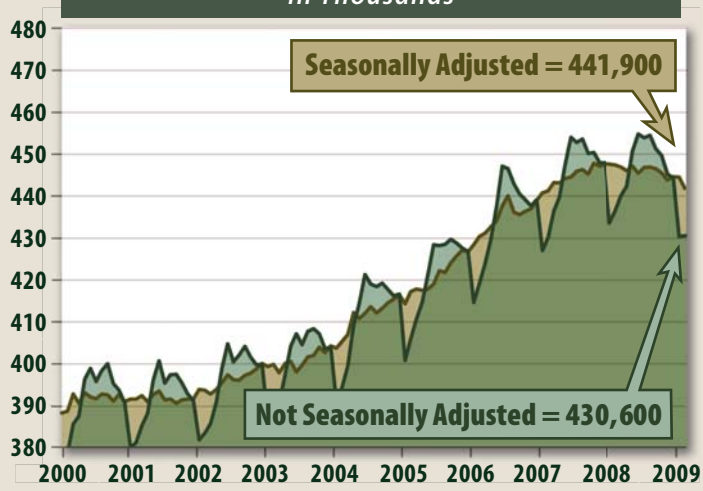
Seasonally Adjusted



Montana's seasonally-adjusted unemployment rate increased to 6.0% for February 2009, up from 5.6% in January. The national rate also rose over the month, reaching 8.1% from 7.6% for January.

NON-FARM EMPLOYMENT

In Thousands



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Is the Official Unemployment Rate Telling the Whole Story?

by Aaron McNay, Economist

Typically, when people discuss unemployment, they refer to "the" unemployment rate for an area. The belief that the offical unemployment rate is the only measure of unemployment is widespread, but innaccurate. In fact, every month the Bureau of Labor Statistics (BLS) produces six different unemployment rates, each of which measures unemployment in a slighty different way. When these different measures are compared, a more accurate picture of the current state of the labor market emerges. Clearly, the offical unemployment rate does not tell the whole story.

Unemployment Rates

The official unemployment rate is specifically designed to track the number of people who do not have a job and are actively looking for work. This rate is the standard rate largely because it has been the official measure since 1948, and therefore provides the best measure of current conditions compared to historic unemployment. The tracking of unemployed workers over time provides a useful measure of current labor market conditions, and a standard method of measuring changes in labor force utilization.

However, one of the main limitations of the standard unemployment rate is that it only accounts for one narrowly-defined type of unemployment. For instance, the standard unemployment rate does not account for "discouraged workers," or people who want to work, but have been unemployed for an extended period of time and are no longer actively seeking a job. Because there are different types of unemployed workers, the BLS prepares five alternative unemployment rate estimates. Figure 1 defines the criteria used to determine who is included in each estimate. These estimates use the same data source as the standard unemployment rate, the U.S. Census Bureau's Current Population Survey (CPS).

Figure 1: Definitions of Unemployment Rate Measures

U-1 Rate:	**Includes persons unemployed 15 weeks or longer**
U-2 Rate:	**Includes job losers and persons who completed temporary jobs**
U-3 Rate:	**Total unemployed persons (Official Rate)**
U-4 Rate:	**Total unemployed persons plus discouraged workers**
U-5 Rate:	**Total unemployed persons, plus discouraged workers, plus all other "marginally attached" workers**
U-6 Rate:	**Total unemployed persons, plus all "marginally attached" workers, plus all persons employed part-time for economic reasons**

Source: United States Bureau of Labor Statistics[1]

The U-1 rate measures the number of individuals who have been unemployed for an extended period. The BLS uses 15 weeks, or longer, to determine if someone meets this criterion.

The U-2 rate measures the number of people who have left their jobs involuntarily or who have finished temporary jobs. This measure is less restrictive than the U-1 rate, but the omission of workers who leave the job voluntarily makes the U-2 rate more restrictive than the standard unemployment rate.

The U-3 rate is the standard, or "official" unemployment rate. This measures individuals who are currently without a job and are actively seeking employment. An individual must have looked for a job within the past month in order to be considered actively seeking employment.

The U-4 rate includes unemployed and discouraged individuals. Discouraged individuals are those who want a job, but are not actively looking for employment because they believe no jobs are available.

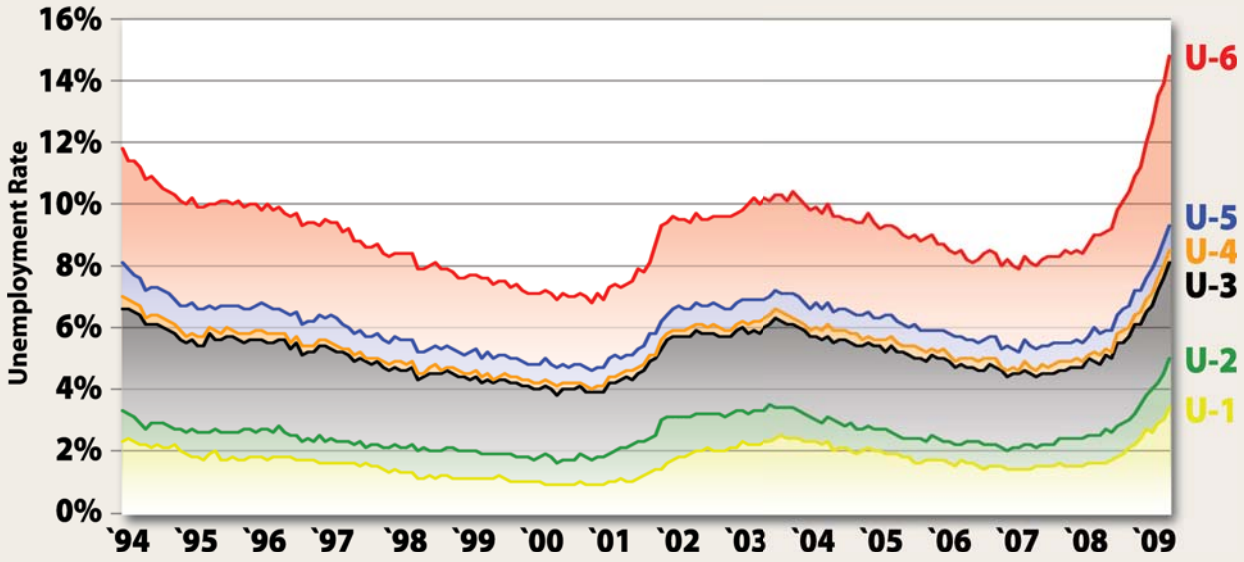
The U-5 rate includes the individuals counted in the U-4 estimate, plus those designated as "marginally attached." Marginally attached individuals are those who want a job, are available to work, and have looked for a job in the past year, but they have not looked for a job in the past month.

The U-6 rate is the broadest measure of labor underutilization. This measure includes unemployed, discouraged, marginally attached, and underemployed workers. Used here, underemployed individuals are available and willing to work full-time, but have had their hours scaled back or accepted part-time jobs for economic reasons.

Combined, the above definitions provide the necessary criteria to develop unemployment rate estimates. The seasonally adjusted alternative unemployment rate estimates for the United States are in Figure 2.

Until recently, the alternative unemployment rates developed by the BLS have only been available at the national level, largely due to the small sample size of the CPS for states. The BLS recently published annual unemployment rate estimates for each state for the years 2007 and 2008.[2] While annual estimates do provide valuable

Figure 2: Alternative Unemployment Rate Estimates for the United States



Source: United States Bureau of Labor Statistics

information, monthly estimates would allow for historical trend, and over-the-month, examinations. Unfortunately, the BLS is not publishing monthly alternative unemployment rate estimates, because the results fail to meet BLS publication standards. For this reason, the Research and Analysis Bureau has developed a set of monthly alternative unemployment rate estimates.

By combining CPS estimates with statistical methods, it is possible to develop monthly alternative unemployment rate estimates for Montana. For Montana, the relatively small CPS sample size does lead to estimates with large standard errors. However, the monthly estimates displayed below are similar to the annual state level BLS estimates (Figure 3). The conformity between the two different estimates provides some confidence in the monthly unemployment rate estimates. These alternative unemployment rate estimates are displayed in Figure 4.

Figure 3: Montana's Alternative Unemployment Rate Comparisons

Area	Year	U-1	U-2	U-3	U-4	U-5	U-6
United States	2007	1.5	2.3	4.6	4.9	5.5	8.3
	2008	2.1	3.1	5.8	6.1	6.8	10.6
Montana BLS Estimate	2007	0.9	1.9	3.6	3.7	3.9	7.3
	2008	1.2	2.6	5.2	5.3	5.6	10.3
Montana R&A Estimate	2007	0.9	1.7	3.4	3.6	4.0	6.4
	2008	1.2	2.3	4.5	4.7	5.4	8.8

Sources: Montana Department of Labor and Industry, Research and Analysis Bureau and United States Bureau of Labor Statistics

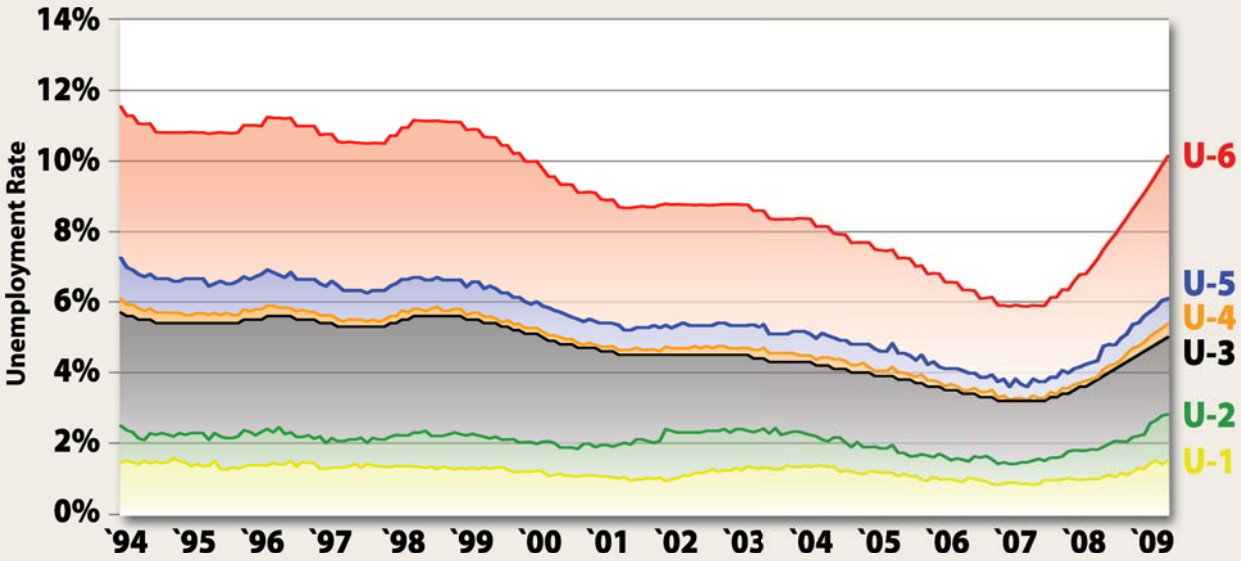
What Can We Learn From the Alternative Unemployment Rates?

An examination of the alternative unemployment rates, and how they change relative to the standard rate, provides new information regarding how the labor market is changing. By examining the alternative unemployment rates, it is possible to examine how employers are adjusting to the changing labor market, in addition to how many people are unemployed.

Perhaps the most noticeable observation is the differences between the national unemployment rates and Montana's unemployment rates for the years 2007 and 2008. Beginning in 2007 and continuing in 2008, the national unemployment rate began increasing rapidly (see Fig. 2). This increase was so rapid that by the end of 2008 all of the unemployment rate estimates had reached historically high values. At the same time, Montana's alternative unemployment rates began increasing as well. However, by the end of 2008, only Montana's U-2 unemployment rate estimate had reached a historical high (see Fig. 4). This observation supports the standard unemployment rates indication that Montana is not feeling the current economic downturn to the same extent as the country as a whole.

The historically high value for the U-2 unemployment rate indicates that a growing proportion of unemployed individuals are leaving their job involuntarily. Normally, many workers leave their jobs because they believe they can find other, usually better, jobs elsewhere. In 2008, growing shares of workers were being forced to leave their jobs. This growing proportion of workers leaving their jobs involuntarily indicates that the official unemployment rate was understating the negative effects of the current economic downturn.

Figure 4: Alternative Unemployment Rate Estimates for Montana



Source: Montana Department of Labor and Industry, Research and Analysis Bureau

Comparing the U-6 estimate with the standard unemployment rate provides another piece of the unemployment picture. Beginning in 2007, Montana's U-6 rate began increasing. At this time, increases were also seen in the other unemployment estimstes. However, as the increase continued, the U-6 rate increased at a faster pace than the standard (U-3) rate, indicating that a larger proportion of employees are having their hours cut back. While this may not be as devastating as being laid-off, workers who have their hours cut back will see a reduction in their incomes and may face additional economic hardships. Similar to the U-2 unemployment rate, the relative increase in the U-6 rate indicates that the official unemployment rate is understating the true effects of the national economic downturn being felt by many individuals in Montana's labor force.

Conclusion

Examining alternative unemployment rate estimates may provide additional insight to the status of the labor market. While the Montana estimates suffer from small sample problems, these estimates do provide some additional information regarding the status of Montana's economy. For example, the rising U-2 and U-6 unemployment rates relative to the standard unemployment rate indicate that Montana's unemployment rate is not only increasing, but there is also a greater proportion of workers who had their hours reduced or who were laid-off entirely. This reveals that a greater proportion of individuals in Montana are being negatively affected by the economy than the standard unemployment rate indicates. These alternative unemployment rates should also prove beneficial in determining when Montana's economy begins recovering. Whether it is an economic downturn, or a recovery, an examination of the alternative unemployment rates will provide a better view of what is truly happening in the labor market.

Works Cited:

[1]*Issues in Labor Statistics , "The Unemployment Rate and Beyond: Alternative Measure of Labor Underutilization", U.S. Bureau of Labor Statistics , June 2008, Summary 08-06*

[2]*United States Bureau of Labor Statistics, Local Area Unemployment Statistics Program, http://www.bls.gov/lau/stalt.htm*

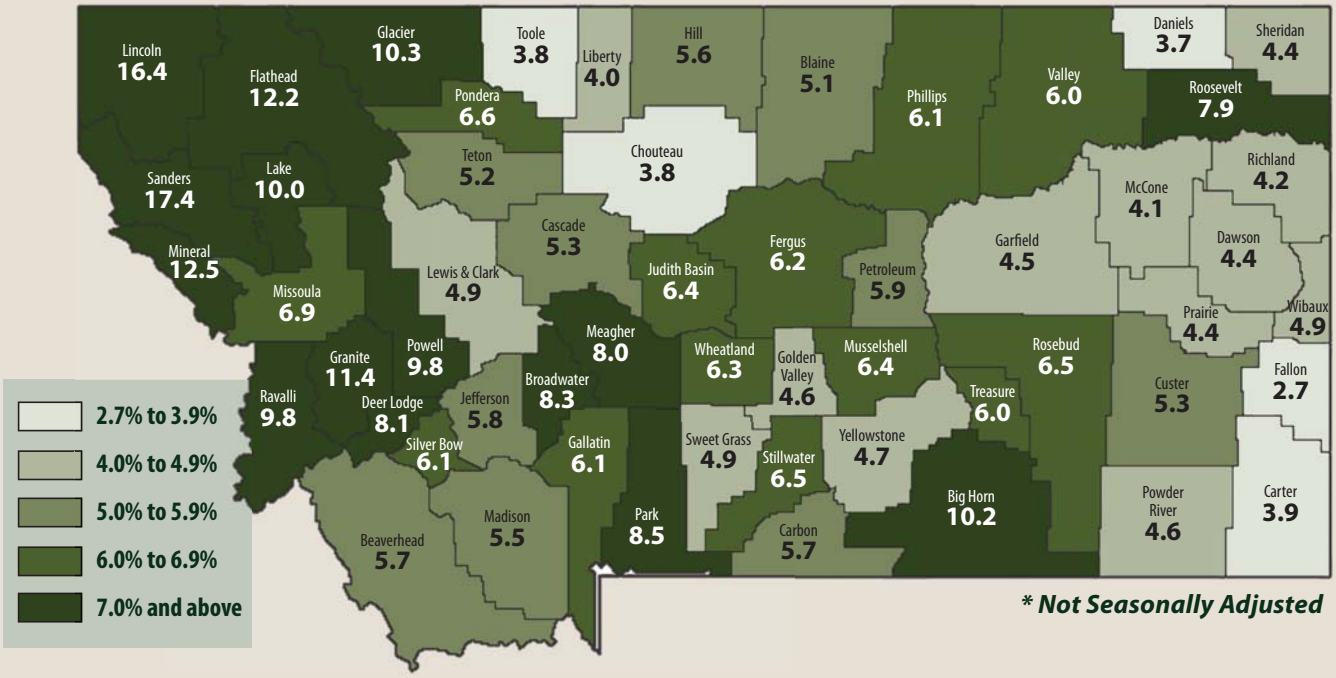
Please Note:

The alternative unemployment rates calculated by the Research and Analysis Bureau are not produced regularly and will not be made available on our website. Annual alternative unemployment rates are available from the Bureau of Labor Statistics (see footnote #2)

MONTANA Economy at a Glance

County Unemployment Rates* - February 2009

Montana Average Rate: 7.0%



** Not Seasonally Adjusted*

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